



VERMONT PENSION INVESTMENT COMMITTEE

SEPTEMBER 29, 2015

DRAFT; NOT YET APPROVED BY COMMITTEE

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2018

KAREN PAUL, Governor's Delegate, term expiring June 30, 2018

THOMAS GOLONKA, VMERS Representative, term expiring June 30, 2016

ROBERT HOOPER (PHONE), VSERS Representative, term expiring June 30, 2016

VPIC Member(s) Absent:

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

VPIC Alternate Members Present:

JEFF BRIGGS, VSERS *Alternate*, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

LINDA DELIDUKA, VSTRS *Alternate*, term expiring June 30, 2017

DAVID STARR, Governor's Delegate *Alternate*, term expiring June 30, 2016

MEL HAWLEY, VMERS *Alternate*, term expiring June 30, 2016

Also attending:

Matt Considine, Director of Investments

Nick Foss, Investments Analyst

Katie Green, Investments Manager

Jaye Pershing-Johnson and Jesse Moorman, Attorney General's Office

Doug Moseley and Chris Levell, NEPC LLC

Stephen Wisloski, Deputy Treasurer

Adam Greshin

Chris Talbert, Teucrium Trading, LLC

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, September 29th meeting to order at 8:30 am, which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval and Announcements

The Chair, Mr. Rauh, announced his retirement to the Committee. He noted a number of reasons, indicating his view that there is a life-cycle to this type of leadership position and that, after 7-

1/2 years in the position, the Committee would benefit from new thinking and a fresh perspective. Chairman Rauh stated his plan to stay on until the end of the year and to assist with the transition.

Treasurer Pearce thanked Chairman Rauh for his service to the VPIC and expressed that his leadership will be missed. Treasurer Pearce also recommended adding the search for a new VPIC Chair to next month's agenda and that she would like to meet individually with all VPIC Members to discuss their opinion on what the process should be, and what they look for in a Chair.

The Chair, Mr. Rauh, reviewed the agenda with the Committee and, hearing no objection, indicated the agenda was approved as written.

Chris Talbert entered the meeting at 8:35AM

Adam Greshin entered the meeting at 8:40AM

ITEM 2: Consent Agenda

The Chair, Mr. Rauh, indicated the items in the Consent Agenda today were the minutes, a revision to the July 28th minutes, and a minor amendment to the contract guidelines for the Acadian International Equity account. Hearing no objections, Mr. Rauh indicated the consent agenda was approved without objection as written.

ITEM 3: Director of Investments Report and Action Items

Mr. Considine reviewed the Director of Investments Report with the Board. He outlined the Portfolio Asset Allocation table and notified the board that, as of August 31st, the VPIC composite AUM was at \$4 billion and the allocations were in line with their target allocations. - Mr. Considine noted that Staff had conducted meetings with Allianz, AQR, and the PIMCO All-Asset team during the past month and the write-ups have been included.

Discussion ensued regarding AQR's volatility management and portfolio structure, as well as the overall exposure of the VPIC portfolio to commodity/inflation sensitive strategies.

Mr. Considine mentioned that the Acadian and SSgA contracts have been completed and that fees for SSgA have been reduced by 1-basis point. Finally, Mr. Considine informed the Committee that the Burlington Employee's Retirement System (BERS) has decided to withdraw their funds from VPIC and that a work plan has been developed and included in the Director's Report.

Jaye Pershing-Johnson entered the meeting at 9:05AM

• BERS Transition Plan

Mr. Considine reviewed the BERS work plan with the Committee and answered any questions or comments Committee Members had.

Bob Hooper left the meeting by phone at 9:45AM

On a motion by Beth Pearce, seconded by Vaughn Altemus, the Committee unanimously approved by roll call (Beth Pearce, Vaughn Altemus, Tom Golonka, Jeff Briggs – Yes; Karen Paul – Abstained) a motion to approve the BERS Resolution as written.

ITEM 4: Discussion Items and Updates

- **Vermont State Treasurer's Update**

The Treasurer, Ms. Pearce, presented the Treasurer's Report to the Committee. Treasurer Pearce notified the Committee that the Treasurer's Office had met with the rating agencies during the past month, which allowed for a reaffirmation of the State's AAA bond rating. Treasurer Pearce mentioned that the Power Point presentation for the "Pension 101" forum which took place last month would be available soon and that Staff would make it available to all interested Committee Members. In addition, Treasurer Pearce made the Committee aware that on October 29th all three retirement system boards would meet to approve the actuarial recommendations put forth by the actuary. Finally, Treasurer Pearce distributed a document by the Vermont Joint Fiscal Office that summarized an opinion on both NEPC's divestment study and the Committee's decision on divestment.

- **August Flash Report**

NEPC reviewed with the Committee members the August Flash report. NEPC responded to the questions posed by the Committee members.

- **Management Fee Analysis Additional Follow-up**

Mr. Moseley reviewed with the Committee members the total fund fee comparison within the "*NEPC 2015 Outlook: Review of GAA Products & Asset Allocation Recommendation*" document. Mr. Moseley responded to questions posed by the Committee members. Staff agreed that it will begin to track down detailed fee information from other public pension plan.

Bob Hooper returned to the meeting via telephone at 10:05AM.

- **NEPC Investment Manager Watch List: PIMCO, Schroder**

Mr. Moseley indicated that both PIMCO and Schrodgers remain on the NEPC Watch List. Treasurer Pearce indicated that she may not be returning for the remainder of the meeting, because of another obligation.

ITEM 5: Commodities Manager Search

- **Commodities Sector Update**

- **Review of Potential Manager Candidates**

The Committee decided that due to the continued work and discussions regarding asset allocation that the review of commodities should be done in October.

ITEM 6: **Asset Allocation Work Plan**

- **Portfolio Goals and Time Horizons**
- **Probability of Failure – Monte Carlo Analysis/Stress Testing**
- **Appropriate Portfolio Expected Volatility**
- **Inflation Protection**
- **Role of GAA and Hedge Fund Allocations**
- **Fee Impacts**
- **NEPC Recommendations**

Mr. Rauh provided an overview of his perspective on portfolio goals and portfolio strategy. In addition Mr. Rauh also suggested that determining an appropriate level of volatility for each plan based on the profile of the plan liabilities could inform what the appropriate asset allocation should be for each plan.

Discussion took place regarding implicit bets in the portfolio and their effect on the portfolio over the last five years.

Discussion also took place regarding the role of tactical strategies in an asset allocation determination.

The role of inflation sensitive exposures in the asset allocation was also discussed, particularly with respect to an appropriate time horizon to use in judging their performance.

(A break was taken from approximately 11:05PM – 11:20PM)

ITEM 7: **Asset Allocation Work Plan (continued)**

Mr. Considine reviewed supplemental charts provided by Staff in support of the discussion surrounding asset allocation. Information on a hypothetical portfolio was provided which attempted illustrate the potential effect of volatility on a plan's funded ratio using a Monte Carlo framework. Also provided were charts showing the effect of cash flows on individual system plan balances, separate from the effects of investment returns. Finally, a chart from Wellington was included showing a dynamic style analysis for the HFRI Fund of Funds index.

NEPC presented material discussing the characteristics of the current VPIC policy, recommended changes to the policy, as well as the characteristics of a simplified asset allocation. A review of asset class expectations (expected return, volatility and correlations) was also given.

Discussion took place regarding the role of different types of strategies in the portfolio as well as the portfolio construction process.

The Committee broke for lunch at approximately 1:15pm – 1:45pm.

ITEM 8: Economic and Financial Market Dashboard

Ms. Green presented the economic and financial markets dashboard to the Committee, which included a number of charts and commentary from the Wellington Asset Allocation Forum that Staff attended recently. Ms. Green responded to questions from the Committee members.

ITEM 9: Future Agenda Topic/New or Other Business

Mr. Rauh shared upcoming VPIC agenda topics and asked for feedback from the Committee members. Mr. Rauh indicated there was no new or other business to come before the Board.

ITEM 10: Public Comment

None.

ITEM 11: Adjournment

Mr. Rauh adjourned the meeting at 2:15pm.

Respectfully submitted,

**Nick Foss
Investments Analyst**